

2-28-2011

Are Expectations for Colombia's Oil Sector Too Optimistic?

Inter-American Dialogue's Latin American Energy Advisor

Follow this and additional works at: https://digitalrepository.unm.edu/la_energy_dialog

Recommended Citation

Inter-American Dialogue's Latin American Energy Advisor. "Are Expectations for Colombia's Oil Sector Too Optimistic?." (2011). https://digitalrepository.unm.edu/la_energy_dialog/117

This Article is brought to you for free and open access by the Latin American Energy Policy, Regulation and Dialogue at UNM Digital Repository. It has been accepted for inclusion in Latin American Energy Dialogue, White Papers and Reports by an authorized administrator of UNM Digital Repository. For more information, please contact disc@unm.edu.

Q and A: Are Expectations for Colombia's Oil Sector Too Optimistic?

Citation: Inter-American Dialogue's Latin American Energy Advisor, February 28 – March 04, 2011; pp. 1, 3, 6. Also online at www.thedialogue.org.

Copyright © 2011, Inter-American Dialogue, used with permission from the publishers.

In February, Mexican tycoon Carlos Slim said he was actively looking to boost investment in Colombia due to its burgeoning oil industry. Meanwhile, the United States Export-Import Bank approved nearly \$1 billion in financing for Colombia's state-run energy company Ecopetrol, identifying the country as one of nine emerging economies that offer the United States a greater opportunity for export sales. Are expectations about Colombia's oil and gas industry justified or overly optimistic? What opportunities does the country offer that make it a desirable place to invest in the energy industry? How can the government boost investment to that sector? How does it compare to other oil-rich Latin American countries such as Brazil?

A: Rodrigo Villamizar, former Colombian minister of mines and energy:

"When it comes to Colombia's energy future, the recurrent question is how is it that a country with so much potential can look like a shack in a rich neighborhood? Indeed, resources are abundant, but the combination of difficult geology, security issues, and other uncertainties has been a deterrent. The expectations of the country's oil industry remain overly optimistic but (until February) the major oil companies were not ready to risk the amounts of money really needed to tap costly and elusive oil. But investors may return after a few disappointments. Under a new global scenario of events that started in Tunisia in mid-December, the specter of supply shortages is once again to the fore. Recent demonstrations in Libya have added several dollars to the West Texas Intermediate price and the contagion effect no doubt will make it climb back up to 2008 levels, reflecting a known fact: oil prices better reflect political developments than market fundamentals. This is good news for countries with still untapped oil and gas resources. With 63 percent of the world's oil reserves and 48 percent of its global gas reserves, the Middle East plus North Africa will be 'too high risk' investment opportunities for a few years. For new investment to head for Colombia and the Latin American region, two factors need to be present: better infrastructure and more friendly (and secure) contractual terms. Unlike Brazil's example of investing in infrastructure first, or India's own large energy investment to accelerate economic development, or China's huge power investment to respond to the rapid increase in production, Colombia lags behind in both."

A: Roger Tissot, member of the Energy Advisor board and independent energy economist:

"One should not be surprised that Mr. Slim is looking to invest in Colombia's oil sector. As a shrewd businessman, he knows where good opportunities are and Colombia has been a

rewarding place for oil companies. Since 2007, production has increased by 47 percent, despite a lack of eye popping discoveries such as those that occurred 20 years ago, which led to a short-lived oil boom (Caño Limón to be followed by Cusiana- Cupiagua) or by the pre-salt discoveries of Brazil. However, the question is why did it take Mr. Slim this long before investing in Colombia's oil sector? While the Brazilian government reduced international oil companies' access to the presalt reserves and increased the control of the government, in Colombia, fierce market competition has increased the 'cost of entry.' As cost increases, IOCs may start looking into other areas, including 'postsalt' Brazil. However, the 'oil boom' in Brazil is clearly one where Petrobras will play a central role. Central to Colombia's oil boom is the development of its heavy crude oil reserves in the Llanos basin. Here, Ecopetrol would be wise not only to master the technologies required to produce heavy crude, but similarly to Petrobras and its strategic advantage as a deep water operator, Ecopetrol could develop a strategic advantage as the region's leading heavy crude oil producer. In addition to Colombia, Ecopetrol could use that strategic advantage to produce oil in partnership with IOCs' and host countries' national oil companies where there are strong cultural affinities and vast heavy crude oil reserves: Peru, Ecuador and, of course, Venezuela. The U.S. Ex-Im Bank financing to Ecopetrol confirms the company's economic potential. What is disappointing, however, is the lack of urgency from the U.S. administration to sign a FTA with Colombia. In that area, Colombia must increase its efforts to diversify its markets, including oil exports. Ecopetrol, in partnership with Chinese and other oil companies, should develop the pipeline transporting oil from the Llanos (and in the future from Orinoco's Venezuela) to the Pacific coast for exports to China."

A:Hernan Arizmendi-Posada, CEO of LAGO Energy in The Woodlands, Tex.:

"For several international investor companies in the oil and gas industry, it's not a matter of whether Colombia's expectations are justified or overly optimistic, as many of them think that this country, with its aggressive pro-business stance, is no longer an untapped potential waiting to be discovered. They have already decided to take action and participate in a broad gamma of investment opportunities in Colombia. According to Colombia's National Hydrocarbons Agency, oil production grew 13 percent year-on-year in January. With approximately 2 billion barrels of proven reserves and potential reserves of approximately 47 billion barrels of oil equivalent, Colombia, according to Ecopetrol, has not yet explored a vast part of the nation's territory but is ready to unlock new discoveries. If you don't jump in now like Mr. Slim and others (and enjoy the party), it may be too late later on to take advantage of these attractive opportunities. Although Brazil is a superpower, you have to search worldwide to find the best combination of 'an all in one' country like Colombia: today one of the most attractive markets, and now on the world petroleum map where billions of dollars of foreign capital flow into the country, thanks to an improved and stable democracy, good economic conditions, security, a welcoming place for private investment, accompanied by an attractive legal framework for foreigners, clear rules, and a positive business environment, plus a strategic geographic location with good infrastructure and plenty of professional human talent. Colombia is a friendly and competitive country where doing business is not only easy, smart and productive but a pleasure. The big risk is not being there in a timely fashion."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.